# CRYPTOCURRENCY, SOVEREIGNTY, AND SANCTIONS: RUSSIA'S SHIFT FROM CRYPTOCURRENCIES TO THE DIGITAL RUBLE

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ABSTRACT

Since the eruption of the Russia-Ukraine conflict in February 2022 and the levelling of numerous sanctions against Russia, Western nations have expressed repeated concerns that cryptocurrencies not only encourage criminality but could also be used by the Russian state to avoid sanctions. This article addresses the question of whether Russia could use cryptocurrencies to blunt the impact of Western sanctions. The article concludes that the Russian government never really viewed cryptocurrencies as a way to avoid Western sanctions. Rather, it engaged in regulating cryptocurrencies in order to give businesses and individuals time to adjust to the new post-sanction environment, while also actively reasserting state control over crypto transactions and laying the groundwork for the introduction of the Russian Central Bank's digital ruble, which is viewed as a key measure to overcome Western financial dominance.

**Key words:** cryptocurrency, Russia, sanctions, Central Bank, digital ruble

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## I. INTRODUCTION

In 2008, a Japanese programmer by the name of Satoshi Nakamoto published an article titled "Bitcoin: A Peer-to-Peer Electronic Cash System"[1] that described a method for creating a peer-to-peer system of electronic currency transactions without any regulatory oversights.[2] Subsequently, the cryptocurrency market proliferated in many jurisdictions around the globe.[3] It has been stated that "[c]ryptocurrencies can possibly become the most disruptive technology that global financial and economic systems have encountered."[4] The rapid growth of cryptocurrencies since 2015 has led to its greater understanding and acceptance by both investors and the public at large.[5] Since the eruption of the Russia-Ukraine conflict in February 2022 and the levelling of numerous sanctions against Russia, Western nations have expressed repeated concerns that cryptocurrencies not only encourage criminality but could also be used by the Russian state to avoid sanctions.[6] This article addresses the question of whether Russia could use cryptocurrencies to blunt the impact of Western sanctions. The article concludes that the Russian government never really viewed cryptocurrencies as a way to avoid Western sanctions. Rather, it engaged in regulating cryptocurrencies in order to give businesses and individuals time to adjust to the new post-sanction environment, while also actively reasserting state control over crypto transactions and laying the groundwork for the introduction of the Russian Central Bank's digital ruble, which is viewed as a key measure to overcome Western financial dominance.[7]

Part II of this article examines the philosophy behind cryptocurrencies and blockchain technology, and discusses how cryptocurrencies may align with some key democratic values such as equity, efficiency, inclusion, and access to a good quality of life. However, it also talks about the challenge of accountability when it comes to cryptocurrencies, in part due to their decentralized and anonymous

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1. *See generally* Satoshi Nakamoto, *Bitcoin: A Peer-to-Peer Electronic Cash System*, BITCOIN, https://bitcoin.org/bitcoin.pdf.

2. R.E. Kadyrov & I. V. Prokhorov, *Regulating Cryptocurrencies: New Challenges to Economic Security and Problems Created by Individuals Involved in the Schemes of Laundering Cryptocurrencies-Generated Profits*, KNE SOCIAL SCIENCES (Feb. 15, 2018), https://www.neliti.com/publications/503987/regulating-cryptocurrencies-new-challenges-to-economic-security-and-problems-cre.

3. *See* Kadyrov & Prokhorov, *supra* note 2.

4. DONAVON JOHNSON, CRYPTOCURRENCY AND PUBLIC POLICY: IMPLICATIONS FOR DEMOCRACY AND GOVERNANCE 19 (Routledge 2023).

5. Deane R. Konowicz, *The New Game: Cryptocurrency Challenges US Economic Sanctions*, DEF. TECH. INFO. CTR. 6 (Feb. 8, 2018), https://apps.dtic.mil/sti/pdfs/AD1062142.pdf.

6. Rabeh Khalfaoui et al., *Impact of Russia-Ukraine War Attention on Cryptocurrency: Evidence From Quantile Dependence Analysis, in* FIN. RESEARCH LETTERS (last revised Feb. 25, 2023), https://www.sciencedirect.com/science/article/abs/pii/S1544612322005426.

7. *Id.*

nature. Thus, nation-states are engaged in shaping cryptocurrencies by way of regulation in order to assert greater state control over currencies that were supposed to be beyond any central authority. Russia does not constitute an exception when it comes to regulating cryptocurrencies.

Part III discusses the issue of cryptocurrencies and crime, especially their role in money laundering, frauds, hacking and tax evasion. It also discusses how cryptocurrencies are making it harder to detect transactions on the dark web. Despite the role of cryptocurrencies in criminal activities, what needs to be kept in mind is that simply bringing crypto transactions within the regular financial system will not necessarily solve the crime issue, as banks have had their own share of money laundering and fraud scandals.

Part IV examines the concerns of Western nations in regards to sanction avoidance by the Russian state through reliance on cryptocurrencies. It deals with the impact of sanctions and discusses whether it is realistic for Russia to use cryptocurrencies to avoid sanctions. Part V looks at the Russian regulation of cryptocurrencies, including draft laws on digital currency and crypto mining, and Part VI talks about the 2023 launch of Russian Central Bank's digital currency—the digital ruble—which is viewed by Russia as an important geopolitical tool.

## II. CRYPTOCURRENCIES: PHILOSOPHY, PURPOSES AND CHALLENGES

Despite the notions of cryptocurrencies and blockchain technology becoming ingrained in public discourse and breeding definitional confusion, at its base, cryptocurrency is virtual money.[8] However, unlike fiat currency, which is government-issued currency, such as dollars or Euros, cryptocurrency is decentralized.[9] In other words, it is not controlled by governments, banks, or other financial institutions,[10] and it "does not have legal tender status in any jurisdiction."[11] Individuals utilize different types of digital wallets to store their cryptocurrency as well as to maintain privacy.[12] Some of the popular crypto exchange platforms, such as Coinbase or Binance, utilize online digital wallets where users can store, buy, and sell their virtual currencies.[13] The value of cryptocurrency is based on the currency's supply and demand and is not controlled by the government.[14] In other

8. JOHNSON, *supra* note 4, at 13.
9. Carolyn Alfieri, *Cryptocurrency and National Security*, 9 INT'L J. ON CRIMINOLOGY 21, 23 (2022).
10. JOHNSON, *supra* note 4, at 14.
11. Kadyrov & Prokhorov, *supra* note 2, at 384.
12. "The types of [digital] wallets range from hardware to mobile apps, or even a simple piece of paper with a QR code." Alfieri, *supra* note 9, at 23.
13. *Id.* at 23.
14. JOHNSON, *supra* note 4, at 16.

words, the value of cryptocurrency is tied to how much consumers are willing to pay for it in fiat money at any given point in time, which makes the cryptocurrency market inherently volatile.[15] Globally, Bitcoin is perhaps the best known cryptocurrency and "it is neither issued by a central bank nor protected by any government regulation."[16] However, currently over 1,500 cryptocurrencies have been created in addition to Bitcoin.[17]

Cryptocurrency transactions are enabled by a public transaction ledger that utilizes blockchain technology, which is a historical chain-link record of all transactions that have ever taken place and have been verified by the system.[18] The process of crypto mining is utilized to add cryptocurrency transactions to the public transaction ledger.[19] Crypto miners receive new Bitcoins as a reward for their complex mathematical calculations that are needed to maintain the blockchain. So, in a sense, new Bitcoins are "mined." Miners use powerful computers or servers to conduct their mathematical calculations, or "mining operations."[20] When crypto miners solve a particular mathematical equation, they broadcast it along with the new block to the broader network.[21] The network then validates the new block through consensus, verifying the legitimacy of transactions and confirming that no double spending had occurred.[22] The key concern with crypto mining is its energy consumption. Increased competition between miners leads to more computational power needed to solve complex mathematical equations. Bitcoin mining currently utilizes more energy than some nation-states.[23]

Cryptocurrency can also be issued outside of mining. For instance, an issuer could manage to convince investors of the effectiveness of their created cryptocurrency and promise to repurchase the cryptocurrency for fiat money.[24] Overall, cryptocurrencies "allow[] users to virtually pay for goods and services" or to invest funds "without the restrictions and limitations of a government-monitored financial

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15. By the end of 2017, one Bitcoin was worth approximately $17,400. One year later the value fell to $3,212. Alfieri, *supra* note 9, at 23.

16. JOHNSON, *supra* note 4, at 15.

17. Examples of other types of cryptocurrencies besides Bitcoin are Litecoin, Namecoin, Worldcoin, and Zeuscoin. *See* Kadyrov & Prokhorov, *supra* note 2, at 384.

18. JOHNSON, *supra* note 4, at 14.

19. *Id.*

20. Kadyrov & Prokhorov, *supra* note 2, at 384.

21. Andrey Sergeenkov, *What Math Problems Do Bitcoin Miners Really Solve*, FORBES (Dec. 5, 2024), https://www.forbes.com/sites/digital-assets/2024/12/05/what-math-problems-do-bitcoin-miners-really-solve/.

22. John Collins, *Crypto, Crime and Control: Cryptocurrencies as an Enabler of Organized Crime*, GLOB. INITIATIVE AGAINST TRANSNAT'L ORGANIZED CRIME 9 (June 16, 2022), https://globalinitiative.net/analysis/cryptocurrencies-crime/.

23. *Id.* at 10.

24. Kadyrov & Prokhorov, *supra* note 2, at 388.

institution."[25] Conducting transactions in cryptocurrency can hold a number of advantages for users: they are free from conventional banking fees, payments are confirmed in a short period of time and are recorded in the blockchain, and the transactions reduce opportunity for fraud as blockchain records cannot be altered.[26] Moreover, due to their decentralized nature, cryptocurrencies are not subject to inflation, exchange rates or international transaction fees, which makes them an attractive instrument for transnational remittances.[27] In other words, international transactions become simpler and more accessible, reducing barriers imposed by credit cards.[28] Furthermore, depending on how a transaction has been conducted, there could be minimal user-identification requirements, unlike the formalized banking system.[29]

On the one hand, cryptocurrency can be viewed as aligning with the key democratic values noted above—equity and inclusion, and access to a good quality of life.[30] The decentralized nature of cryptocurrency facilitates financial inclusion of both the rich and the poor, in part because of the absence of ties to any institution. Frequently, poor individuals remain unbanked (i.e., without a bank account) because they are not capable of meeting various customer identification requirements. However, in order to participate in cryptocurrency transactions, all that is needed (at least initially) is access to the internet and some basic financial knowledge.[31] Furthermore, crypto mining has allowed individuals to bolster their personal freedom and pursue greater financial stability.[32] In all, cryptocurrencies provide financial access to those who do not have access to regular financial systems.[33] Cryptocurrency transactions are also efficient, since the whole idea behind cryptocurrency is the elimination of third parties; therefore, transactions can occur more quickly between the buyer and the seller.[34] The decentralized nature of cryptocurrencies minimizes infrastructure expenses and transaction fees. Furthermore, the utilization of blockchain technology for record keeping creates an unfalsifiable record of crypto exchanges.[35] However, it is notable that the "efficiency"

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25. JOHNSON, *supra* note 4, at 14.

26. Adam Hayes, *Blockchain Facts: What Is It, How It Works, and How It Can be Used*, INVESTOPEDIA (Sept. 16, 2024), https://www.investopedia.com/terms/b/blockchain.asp.

27. Alfieri, *supra* note 9, at 24.

28. Chelsea Pieroni, *La Crypto Nostra: How Organized Crime Thrives in the Era of Cryptocurrency*, 20 N.C. J. L. & TECH. 111, 112 (2018).

29. JOHNSON, *supra* note 4, at 16.

30. *Id.* at 61.

31. *Id.* at 62.

32. *Id.* at 75.

33. *Id.*

34. *Id.* at 64.

35. Cryptocurrencies also have the potential of making cross-border transactions easier, since domestic and international payments can be made in combination of currencies, without the use of credit cards, central clearing houses or correspondent banks. *See id.* at 65, 69.

argument can go both ways, as cryptocurrency transactions can also make criminal transactions more "efficient."[36]

On the other hand, due to its decentralized nature and position outside the mainstream financial system, many governments have been and continue to be skeptical of cryptocurrencies, in part due to the lack of accountability mechanisms, which are crucial in democratic systems. When it comes to fiat currencies, central banks control the quantity of money in circulation and keep the economy healthy. However, cryptocurrencies are volatile, and many of the entities that enable cryptocurrency transactions are unregulated.[37] Thus, even though governments did not create cryptocurrencies, and current financial and legal systems have not been designed to accommodate cryptocurrencies,[38] governments around the world have attempted to shape the development of the cryptocurrency market by regulation.[39] Some of the obvious governmental goals for regulating cryptocurrencies include taxing cryptocurrencies, limiting fraud, and protecting citizens financially.[40] The emergence and spread of cryptocurrencies has presented challenges for good governance, as crypto profits have frequently remained beyond governmental tax reach.[41] Some governments have gone as far as completely banning crypto transactions of any kind. For example, in 2017, China completely banned all cryptocurrencies and, in 2021, it banned crypto mining when it began to perceive cryptocurrencies as threatening state sovereignty and undermining its sovereign digital yuan.[42] Beyond the issue of good governance, cryptocurrencies pose a potential threat to state sovereignty as taxation, monetary policy, and budgeting constitute key elements of sovereignty.[43] Cryptocurrencies directly threaten state monopoly on the creation of money, thus threatening state power and legitimacy.[44] It is not only nation-states that aim to regulate cryptocurrencies. At the supranational level, the Financial Action Task Force (FATF) updated its guidance in 2021 in regards to cryptocurrencies and called for greater regulation of virtual asset service providers, aiming to "corral much of the nascent industry into the existing regulatory framework for banks."[45] Such regulatory

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36. Eric Engle, *Is Bitcoin Rat Poison? Cryptocurrency, Crime, and Counterfeiting (CCC)*, 16 J. HIGH TECH. L. 341, 345 (2016).

37. JOHNSON, *supra* note 4, at 71.

38. *Id.* at 19.

39. *Id.* at 18.

40. *Id.* at 21.

41. *Id.* at 80.

42. *Id.* at 81.

43. Engle, *supra* note 36, at 357.

44. *Id.* at 359.

45. Collins, *supra* note 22, at 22 (quoting Ian Allison, *FATF Crypto Guidance Looks to Bring Industry in Line With Banks*, COINDESK (Oct. 28, 2021), https://www.coindesk.com/policy/2021/10/28/fatf-crypto-guidance-looks-to-bring-industry-in-line-with-banks).

guidance provides significant advantages to financial institutions that have already invested resources to comply with past FATF recommendations, which in turn continues to disadvantage individuals and businesses that are underbanked.[46]

Feeling pressured to respond to blockchain technology and burgeoning interest in cryptocurrencies by the population, financial institutions and central banks in many jurisdictions have unwillingly responded, partly out of fear of losing control.[47] Cryptocurrencies have the potential to not only challenge nation-states' law enforcement efforts but also contribute to geopolitical shifts.[48] Thus, trying to shape the future of cryptocurrencies by state regulation is not a surprising response. However, what needs to be kept in mind is that too much regulation and too many attempts to bring cryptocurrencies within the conventional banking and financial systems will threaten the very nature of cryptocurrency—that is, its decentralized nature that keeps it beyond governmental control.[49] Perhaps that is the very action that nations-states are trying to achieve: to undercut the advantages and attractiveness of cryptocurrencies in the first place. As has been pointed out, "[b]oth licit and illicit actors are drawn to crypto for the privacy and freedom it offers," and "[i]ncreased reporting requirements would largely remove what makes cryptocurrency attractive."[50] Prior to the emergence of cryptocurrencies, similar systems of transferring money or value outside of the formalized financial system were already being used through hawala, which, not unlike cryptocurrency, largely relies on trust and is used to avoid formalized banking systems.[51] As with hawala, the dangerous and criminal nature of cryptocurrencies have been consistently highlighted by governments as a justification for increased regulation.[52] Hence, it is likely that in the long run, innovations stemming from blockchain technology will be integrated to a certain degree within traditional finance. However, "innovations will continue to become subservient to mainstream economic and geopolitical phenomena," especially as central banks' digital currencies (fully controlled by nation-states) continue to gain traction.[53] Undoubtedly,

46. Collins, *supra* note 22, at 23.
47. *Id.* at 4.
48. *Id.*
49. Alfieri, *supra* note 9, at 34-35.
50. *Id.* at 35.
51. *Id.* at 32; *see From Tradition to Criminality: Unmasking the Dark Side of the Hawala System*, FIN. CRIME ACAD.: ANTI-MONEY LAUNDERING (AML), (Dec. 11, 2024), https://financialcrimeacademy.org/hawala-system/#.
52. Alfieri, *supra* note 9, at 32.
53. Collins, *supra* note 22, at 5.

these central banks will use a variation of blockchain technology (permissioned ledgers) to keep track of these transactions.[54]

## III. CRYPTOCURRENCIES AND CRIME

Due to the anonymity and decentralization of cryptocurrencies, concerns have been raised in regards to cryptocurrency transactions enabling criminality and sanction-busting.[55] Many compare the cryptocurrencies market to the subprime mortgages of the 2000s when toxic assets and debt were masked and the entire financial system nearly collapsed in 2008.[56] For instance, Gary Gensler, the U.S. Securities and Exchange Commission Chair, criticized cryptocurrencies by stating that "[a]t this time, it's more like the Wild West. This asset class is rife with fraud, scams and abuse . . . In many cases, investors aren't able to get rigorous, balanced and complete information."[57] The relative anonymity of cryptocurrency transactions make them attractive to individuals and entities seeking to evade taxes. Many crypto exchanges are located in tax havens in order to avoid regulation and oversight.[58] Furthermore, the absence of direct personal contact between parties during transactions represents a specific risk of money laundering, since it enables criminals to act anonymously.[59] The involvement of cryptocurrencies in the money laundering process makes it more difficult for the authorities to track the illicit funds, while making it easier for criminal groups to send money across borders.[60] Furthermore, it is difficult to estimate the true amount of money laundering involving cryptocurrencies, because "[w]hen crimes occur off the blockchain but the funds are washed or 'layered through' crypto transactions, the analysis fails to account for this as money laundering related to crypto."[61] In addition to money laundering and tax evasion, criminals have demanded Bitcoin for digital ransom payments, storing their criminal funds in digital wallets that are outside of governmental

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54. Currently, central banks in over 90 jurisdictions around the world are in the process of creating their own digital currencies, which will be utilizing centralized "permissioned" ledgers that could be edited by a few selected parties and be fully controlled and monitored by the state. *Id.* at 5-7.

55. Engle, *supra* note 36, at 343-44.

56. Collins, *supra* note 22, at 14.

57. *Id.* at 7 (quoting Gary Gensler, *Remarks Before the Aspen Security Forum*, U.S. SEC (Aug. 3, 2021), https://www.sec.gov/newsroom/speeches-statements/gensler-aspen-security-forum-2021-08-03).

58. *Id.* at 15.

59. *See International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation*, FINANCIAL ACTION TASK FORCE (FATF) 70-71 (last updated Nov. 2023), www.fatf-gafi.org/en/ publications/Fatfrecommendations/Fatf-recommendations.html.

60. In the past, criminals have deposited small amounts of cash into several banks to minimize the risk of money laundering detection. They then use the money in these numerous accounts to purchase Bitcoin to make it easier to move the funds across borders. *See* Alfieri, *supra* note 9, at 30.

61. Collins, *supra* note 22, at 18.

financial control.[62] The cost of paying the ransom is frequently less expensive than the cost of completely redeveloping systems and restoring the data.[63] For example, in 2019, hackers demanded to be paid $460,000 in Bitcoin to restore access to Lake City, Florida's municipal computer systems after they locked them.[64] Such ransomware attacks have skyrocketed in 2020 because of the COVID-19 pandemic and the movement to working online.[65]

Cryptocurrency owners can also be subjected to major financial losses due to bankruptcy or hacking.[66] For example, in 2012, BitFloor, a New York–based cryptocurrency exchange was hacked and lost approximately $250,000 in Bitcoin.[67] Similarly, in 2014, about $480 million in Bitcoin was stolen by hackers from Mt. Got, a Japanese cryptocurrency exchange.[68] In addition to theft and hacking, bankruptcy of cryptocurrency exchanges has been on the rise. The most notable recent example is the collapse of the FTX crypto exchange. FTX co-founder Sam Bankman-Fried was accused of stealing billions of dollars from FTX users in order to pay off the debts of his other firm.[69] By the time FTX filed for bankruptcy protection on November 11, 2022, about $8 billion of customers' funds were missing.[70] Similarly, QuadrigaCX, one of Canada's largest cryptocurrency exchanges, collapsed in early 2019 after the exchange manager, Gerald Cotten, passed away, taking all digital wallet passwords with him.[71] It turned out that he used investor funds for travel and to purchase luxury items.[72] Russia has had its own share of criminality connected with cryptocurrencies. For example, the fraudulent cryptocurrency exchange Finiko has attracted investor funds in the amount of 70 million rubles (around $1 million USD) from 2018 to 2020 by promising them significant investment returns, before being taken down by law enforcement.[73] Furthermore, Russian lawyers noted an increase in the number of bribes being paid in cryptocurrency.[74] It is

62. Pieroni, *supra* note 28, at 135.
63. Alfieri, *supra* note 9, at 24.
64. *Id.* at 26.
65. *Id.*
66. Kadyrov & Prokhorov, *supra* note 2, at 386.
67. Pieroni, *supra* note 28, at 118.
68. *Id.*
69. Peter Hoskins, *FTX: Collapsed Crypto Exchange Says $415m Was Hacked*, BBC NEWS (Jan. 17, 2023), https://www.bbc.com/news/business-64313624.
70. *Id.*
71. Collins, *supra* note 22, at 14.
72. *Id.*
73. *V Kazani arestovan sozdatel finansovoi piramidy Finiko. Etim letom ona ruhnunla [The Creator of the Financial Pyramid Finiko Was Arrested in Kazan. This Summer It Collapsed]*, BBC NEWS RUSSKAYA SLUZHBA (July 30, 2021), https://www.bbc.com/russian/news-58030085 (Russ.).
74. Tim Alper, *Crypto Bribery Cases on the Rise in Russia*, CRYPTONEWS (July 10, 2024), https://cryptonews.com/news/crypto-bribery-cases-on-the-rise-in-russia/.

clear that many cryptocurrency exchanges, especially decentralized ones, lack meaningful consumer protection.[75]

Another aspect of criminality related to cryptocurrency is that cryptocurrency may potentially enable the perpetuation of criminal activities on the dark web. Details of the October 2013 arrest of Ross Ulbricht, founder of the Silk Road online marketplace that facilitated the trade of drugs, weapons and other illicit services, revealed the fact that all payments were made using Bitcoin.[76] Hence, "[d]ark net marketplaces, also referred to as cryptomarkets, are primary examples of the intersection between cryptocurrency and illicit activity," as they give users an arguably more secure way to buy and sell unlawful products with payments being made outside of the regular financial system.[77] Furthermore, with the rise in popularity of crypto mining, theft of mining equipment has also been on the rise. In March 2018, four data mining centers in Reykjavik, Iceland, were robbed of hundreds of Bitcoin mining rigs, power sources, motherboards, memory discs, and CPUs totaling approximately $2 million in value.[78]

While cryptocurrencies are linked to crime and have sparked debate over their role in illegal activities, the banking sector has also been involved in numerous criminal and money laundering scandals, despite strict anti-money laundering and customer identification (Know Your Customer) regulations.[79] For example, while both the Australia's Commonwealth Bank and the Netherlands' Rabobank restrict or ban cryptocurrency transactions,[80]both of these banks have provided millions of dollars to notorious organized crime figures and have cooperated with Mexican drug cartels in laundering money.[81] While the relative anonymity and decentralized nature of cryptocurrencies can certainly make them attractive to criminal elements, these features also make cryptocurrencies attractive to perfectly legitimate investors. Hence, simply bringing cryptocurrencies within the fold of government banking regulation would not necessarily reduce the level of crime and

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75. Collins, *supra* note 22, at 15.

76. It is notable that, in 2015, two FBI agents that were involved in shutting down the Silk Road were charged with wrongfully retaining Bitcoins. *See* Pieroni, *supra* note 28, at 118, 121.

77. Alfieri, *supra* note 9, at 28-29.

78. Pieroni, *supra* note 28, at 134.

79. Alfieri, *supra* note 9, at 28.

80. Lewis Jackson, *Australia's largest bank blocks payments to some crypto exchanges*, REUTERS, (June 8, 2023, 2:26 AM), https://www.reuters.com/technology/australias-largest-bank-blocks-payments-some-crypto-exchanges-2023-06-08/; *Dutch banks refuse accounts for cryptocurrency businesses*, NL TIMES, (Feb. 2, 2018), https://nltimes.nl/2018/02/02/dutch-banks-refuse-accounts-cryptocurrency-businesses.

81. Daniel Neale, *Taking stock of 2018's money laundering scandals: When is enough enough? (Part 1)*, GLOB. FIN. INTEGRITY, (Jan. 6, 2019), https://gfintegrity.org/taking-stock; Robert Saviano, *Where the Mob Keeps Its Money*, N.Y. TIMES, (Aug. 25, 2012), https://www.nytimes.com/2012/08/26/opinion/sunday/where-the-mob-keeps-its-money.html; Elliot Spagat, *Rabobank to pay $369 million in money-laundering case*, AP NEWS, (Feb. 7, 2018), https://apnews.com/national-national-general-news-25204f3ee9fa4e948ea74a0e82249258.

tax evasion, as criminals and the rich and powerful will find other ways to exploit the financial system; the "global trend among banks to turn a blind eye to organized criminal activity when these institutions benefit from it" has been a long-standing issue.[82] The 2016 Panama Papers leak vividly demonstrated the desire of the world's wealthy for anonymity and tax avoidance.[83] Furthermore, if cryptocurrency exchanges adopt Know Your Customer and anti-money laundering measures similar to the banking system, it will still be difficult to know how well these exchanges will apply these measures.[84] Hence, heavy regulation of cryptocurrencies, while certainly removing their key advantages, will also perpetuate current inequalities within the regular financial system without necessarily reducing the level of crime and financial instability.[85]

## IV. CRYPTOCURRENCY AND SANCTIONS

In addition to concerns over cryptocurrency and criminality, after the eruption of the Russia-Ukraine conflict in February 2022, concerns about cryptocurrency and sanction evasion have been repeatedly voiced.[86] Prior to the conflict, approximately $92 billion USD were being held in crypto assets spread around 17 million Russian crypto wallets.[87] Russia is also the third largest Bitcoin-mining country in the world.[88] Furthermore, Russia is a country with one of the highest percentages of the population (approximately 12%) holding crypto assets.[89] Since the eruption of the conflict, numerous sanctions have excluded some major Russian banks from the SWIFT financial messaging network, which severely limits all international financial transactions, including foreign remittances, in which these banks can engage.[90] Furthermore, Visa, Mastercard, and American Express credit cards issued by Russian banks no longer operate internationally, although they continue to operate

82. Pieroni, *supra* note 28, at 136-37.

83. Igor M. Matskevich, *Organizovannaya prestupnost' i kriptovalyuta. Interv'yu vitse-prezidenta Soyuza KK V.S. Ovchinskogo [Organized Crime and Cryptocurrency. Interview with the Vice-President of the KK Union V.S. Ovchinsky]*, KOMSOMOLKA (July 3, 2017), https://crimescience.ru/news/Организованная-преступность-и-крипт.html (Russ.).

84. Rebecca M. Nelson & Andrew P. Scott, *Russia Sanctions and Cryptocurrencies: Policy Issues*, 33 CURRENT POL. & ECON. EUR. 127, 129 (2022).

85. Alfieri, *supra* note 9, at 35.

86. Nelson & Scott, *supra* note 84, at 127.

87. Collins, *supra* note 22, at 19.

88. *Id.*

89. Compared to eight percent of the population holding crypto assets in the U.S. and five percent in the UK. *See* Katharina Allinger et al., *Russia's Large Fintechs and Digital Ecosystems – in the Face of War and Sanctions*, OSTERREICHISCHE NATIONALBANK (AUSTRIAN CENT. BANK) 47, 62 (2022) https://ideas.repec.org/a/onb/oenbfi/y2022iq3-22b3.html.

90. Some of the impacted banks include Sberbank, Rosselkhozbank, VTB Bank, and Bank Rossiya. *Id.* at 57.

domestically.[91] This means that "[p]ayments abroad, including on foreign internet resources, will not be available with Visa and Mastercard international payment systems cards issued by Russian banks."[92] However, not all Russian banks have been excluded from the SWIFT messaging network when it comes to international transactions. Moreover, Russian banks have started to actively utilize the Chinese CIPS messaging system.[93] In response to 2014 sanctions against Russia related to the Crimea conflict, Russia built its own internal banking messaging system (System for Transfer of Financial Messages), which handles all of Russia's internal banking operations.[94] Thus, most Russian banking customers have not been affected in their daily domestic banking by their banks being disconnected from the SWIFT messaging network, and, in fact, continue to use their credit cards domestically.[95] As a result of sanctions on the Russian financial sector, especially the ability to conduct international transfers and payments, concerns have been raised in the West regarding cryptocurrencies being used to blunt the effectiveness of the financial sanctions.[96] For instance, between February and March 2022, swaps for rubles to Bitcoin increased exponentially as people began protecting their financial wealth against uncertainty.[97] It was also acknowledged that companies in non-sanctioned jurisdictions could be tempted to use cryptocurrencies to reach customers in sanctioned jurisdictions.[98]

In response to Western sanctions,[99] some of the major public crypto exchanges and crypto service providers, such as Binance, Bitfines, Kuna, and BTC-Alpha, have banned crypto transactions on the basis of nationality with all Russian citizens and entities, regardless of whether they have been officially sanctioned or not.[100] Since the

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91. Kalyeena Makortoff, *Mastercard and Visa Block in Russia Does Not Stop Domestic Purchases*, GUARDIAN (Mar. 6, 2022, 9:09 AM), https://www.theguardian.com/business/2022/mar/06/russians-visa-mastercard-ban-domestic-purchases-mir.

92. *Id.* Russian customers have been encouraged to make a switch to the Russian domestic MIR card, which is accepted in some jurisdictions. *See id.*

93. Valeriya Konkina, *Razvorot na Vostok: Zapad proschitalsya s otklucheniem Rosii ot SWIFT* [*Pivot to the East: The West Miscalculated the Disconnection of Russia from SWIFT*], FEDERALNOE AGENSTVO NOVOSTEI (June 1, 2023), https://kherson.life/rossiya/economy-2/razvorot-na-vostok-zapad-proschitalsya-s-otklyucheniem-rossii-ot-swift/ (Russ.).

94. *See* Allinger et al., *supra* note 89, at 57.

95. *See id.* at 57–58.

96. *See* Collins, *supra* note 22, at 20.

97. Allinger et al., *supra* note 89, at 61.

98. Konowicz, *supra* note 5, at 15.

99. On October 6, 2022, the EU's eighth sanctions package against Russia included a ban of access to all European crypto services for all citizens of Russia. *See* Denis A. Konev, *Modernizatsiya Prestupnoi Deyatelnosti Pod Razvitiem Sanktsionnyh Zapretov* [*Modernization of Criminal Activity Under the Development of Sanctions Prohibitions*], 9 OBRAZOVANIE I PRAVO 275, 275–77 (2022) (Russ.).

100. Allinger et al., *supra* note 89; *see* Nikita Zuborev & Oksana Dyachenko, *Gde luchshe vsego hranit kriptovalutu v usloviyah sanktsii: sovety kriptoanalitika* [*Where Is the Best Place to Store Cryptocurrency Under Sanctions: Advice from a Crypto Analyst*], RIAMO (Nov. 14, 2022),

beginning of the Russia-Ukraine conflict and the levelling of sanctions, the level of activity on P2P platforms, on which cryptocurrency is transferred directly between private individuals, has increased.[101] Moreover, in addition to using decentralized crypto exchanges, Russian cryptocurrency holders have started to utilize non-custodial wallets, such as MetaMask, Trust Wallet, and Klever,[102] to avoid the possibility of their crypto funds being frozen or confiscated.[103] While custodial wallets are managed by third parties (usually an individual utilizes a crypto wallet associated with a particular public crypto exchange), when it comes to non-custodial wallets, the user retains full control and can restore access to such wallets with a seed-phrase.[104] Furthermore, cryptocurrency exchanges outside of the West, such as in the United Arab Emirates, have continued to deal with Russian clients.[105] Major economies in countries such as Brazil, China, India, Mexico, Saudi Arabia, and the UAE have not imposed sanctions on Russia and continue to engage in financial transactions, both crypto and fiat, with Russian clients and business entities.[106] These jurisdictions, however, have been subjected to increasing Western pressure to comply with Western sanctions.[107]

The West in general and the U.S. especially have increasingly used economic sanctions to achieve their national security objectives.[108] "Sanctions are designed to achieve their economic intent relative to the US backed international monetary system, in which the dollar remains the global reserve currency."[109] However, in the long term, Western "secondary sanctions" could "accelerate efforts by some actors to reduce their reliance on the U.S. [and European] financial system and the U.S. dollar."[110] The movement away from the U.S. dollar as a global reserve currency could be made even quicker as a result of the

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https://riamo.ru/articles/shpargalki/gde-luchshe-vsego-hranit-kriptovalyutu-v-usloviyah-sanktsij-sovety-kriptoanalitika/ (Russ.).

101. G.R. Derbentsev, *Perspektivy Razvitiya Rynka Kriptovalut v Rossiiskoi Federatsii* [*Prospects for the Development of the Cryptocurrency Market in the Russian Federation*], 1 VESTNIK TAGANROGSKOGO INSTITUTA UPRAVLENIYA I EKONOMIKI 59, 59–60 (2022) (Russ.). Some popular decentralized exchanges include BakerySwap, Uniswap, and Biswap. *See also* Zuborev & Dyachenko, *supra* note 100.

102. Anastasiya Kuzmicheva, *ES zapretil operatsii s kriptovalutami rossiyanam: kogo eto kasaetsya i cito budet s koshelkami* [*The EU Has Banned Transactions with Cryptocurrencies for Russians: Who Does This Concern and What Will Happen to Their Wallets*], TINKOFF ZHURNAL (Oct. 10, 2022), https://journal.tinkoff.ru/news/crypto-ban-russia/ (Russ.).

103. Zuborev & Dyachenko, *supra* note 100.

104. It has been argued that regulated centralized crypto exchanges, which function more like brokers than true exchanges, go against the very idea of cryptocurrencies based on decentralization and anonymity. *See id.*

105. Nelson & Scott, *supra* note 84, at 128.

106. *Id.* at 129.

107. *Id.*

108. Konowicz, *supra* note 5, at 4.

109. *Id.*

110. Nelson & Scott, *supra* note 84, at 130.

unprecedented Western move to freeze $600 billion of the Russian central bank's stockpile of foreign reserves (money invested in other countries' currencies and gold).[111] Such weaponization of the financial system, combined with the pressure of sanctions, erodes trust in Western financial institutions and speeds up the "search for alternatives to the dollar," which in turn undercuts the effectiveness of future sanctions.[112] The general idea of sanctions has been widely criticized for being an "ineffective and dangerous policy tool."[113] Sanctions tend to have detrimental consequences on individuals and businesses without necessarily affecting the targeted government.[114] In the case of Russia, which has faced the largest number of sanctions of any country in the world,[115] it has strengthened both the citizens' and government's resolve to cut ties with the West, to rapidly pivot towards China, and to form strong alliances with other non-Western players.[116]

Overall, the sheer scale of cryptocurrency transactions cannot be compared to transactions over the SWIFT network. For example, in February 2022, cryptocurrency transactions totalled $24 billion per day while daily transactions over the SWIFT network totalled $5 trillion.[117] To put it simply, the scale of cryptocurrency transactions cannot offset sanctions against Russia[118] because "the global cryptocurrency market is not liquid enough to backfill the financial needs of the entire Russian economy, the eleventh largest in the world."[119] Furthermore, sanctions packages directed at cryptocurrency transactions and the refusal of some major cryptocurrency exchanges to deal with any Russian clients also make it more challenging to engage in sanction avoidance, at least on a large scale.[120] That said, some smaller-scale transactions remain possible, albeit risky.[121] Moreover, the high volatility of cryptocurrencies acts as a limiting factor in using them on a large

111. *See* Farid Makhlouf & Refk Selmi, *Do Sanctions Work in a Crypto World? The Impact of the Removal of Russian Banks from SWIFT on Remittances*, HAL OPEN SCI., March 6, 2022, at 3, https://hal.science/hal-03599089v1.

112. Konowicz, *supra* note 5, at 5.

113. Makhlouf & Selmi, *supra* note 111 at 3.

114. *Id.*

115. Nick Wadhams, *Russia Is Now the World's Most-Sanctioned Nation*, BLOOMBERG, (March 7, 2022), https://www.bloomberg.com/news/articles/2022-03-07/russia-surges-past-iran-to-become-world-s-most-sanctioned-nation.

116. Kiril Babaev, *Ekspert Kiril Babaev rasskazal, chto oznachaet dlya Rossii vozvrashcenie k 'vostochnomu vektoru'* [*Expert Kirill Babaev explained what the return to the "Eastern vector" means for Russia*], RGRU (July 13, 2022), https://rg.ru/2022/07/13/novyj-povorot.html (Russ.).

117. Collins, *supra* note 22, at 20.

118. Makhlouf & Selmi, *supra* note 111 at 5.

119. Nelson & Scott, *supra* note 84, at 128.

120. Collins, *supra* note 22, at 20.

121. K.D. Shilov, *Kriptovaluty: Tendentsii Rynka i Sankts* [*Cryptocurrencies: Market Trends and Sanctions*], 30 RUSS. ECON. DEV., Feb. 2023, at 48 (Russ.).

scale.[122] However, Russian regulation of cryptocurrencies throughout the years, including the most recent draft regulations, make it apparent that Russia never really viewed cryptocurrencies as a means of sanction avoidance in the first place.[123]

## V. RUSSIAN REGULATION OF CRYPTOCURRENCIES

Various factors create favorable conditions in Russia for the development of cryptocurrencies, despite the government's initial negative attitude towards it. Some of these factors are: the presence of a large number of highly trained IT professionals; a favorable climate for establishing large computing facilities; the high achievement of Russian cryptographers; operating in a highly sanctioned environment; and the limited ability to access global financial flows.[124] Furthermore, Russian banks have been exceptionally receptive to the digitalization drive and Russian tech firms have started to enter the financial field, thus blurring the boundaries between tech and finance.[125] The Russian government has encouraged digitalization with a view to "achieving digital sovereignty and reducing technological dependence on foreign countries, particularly the USA."[126] Russia is one of only a handful of jurisdictions that possesses its own information and communications technology champions. For example, the Yandex search engine and VK social media platform are much more popular in Russia than Google and Facebook.[127] Furthermore, the e-commerce enterprises Wildberries and Ozone outpace Amazon.[128] Kaspersky Lab is a leading firm for cybersecurity.[129] The Russian state has both promoted and maintained some control over all of these companies.[130] It is clear that the Russian population has been extremely receptive to both digitalization and blockchain technologies.[131]

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122. Nicole Lapin, *Explaining Crypto's Volatility*, FORBES, (Dec. 23, 2021), https://www.forbes.com/sites/nicolelapin/2021/12/23/explaining-cryptos-volatility/.

123. *See* Anti Danilevski, *Kontr-santsii: kriptovaluta kak sredstvo transgranichnyh platezhei* [*Counter-sanctions: cryptocurrency as a means of cross-border payments*], VC.RU, (Oct. 28, 2022) (Russ.).

124. Kadyrov & Prokhorov, *supra* note 2, at 391.

125. Allinger et al., *supra* note 89, at 47.

126. For example, the Russian government only used domestic systems and software to build a Russian 5G infrastructure. *Id.* at 48.

127. *Search Engine Market Share Russian Federation*, STATCOUNTER (Nov. 2024), https://gs.statcounter.com/search-engine-market-share/all/russian-federation; *Leading Social Media Platforms in Russia in 2024, by Monthly Penetration Rate*, STATISTA (Feb. 2024), https://www.statista.com/statistics/867549/top-active-social-media-platforms-in-russia/.

128. *Leading Online Stores in Russia in 2023, by Sales Value*, STATISTA (Mar. 2024), https://www.statista.com/statistics/1006643/leading-online-stores-russia/#.

129. *Id.* at 50.

130. *Id.* at 50–51.

131. Shilov, *supra* note 121, at 45.

Despite a highly receptive population and interest in both banking and technology sectors, the Russian Central Bank has always had a very negative view of cryptocurrencies and continues to be a strong proponent of banning them outright.[132] For example, in January 2022, the Russian Central Bank issued a report calling for a complete ban of the cryptocurrency economy, including crypto mining, holding or investing in crypto assets and using cryptocurrency as a means of payment.[133] The rationale behind such a ban was the volatility of the cryptocurrency market, potential for fraud, utilization of cryptocurrencies for money laundering, terrorist financing and elicit activities, as well as enabling capital flight.[134] Furthermore, the Russian Central Bank viewed cryptocurrencies as threatening its own digital currency—the digital ruble[135]—as well as the traditional financial system.[136] The Russian Ministry of Finance has held a milder position, which looks to ultimately prevail when it comes to regulating cryptocurrencies.[137]

Until 2020, cryptocurrency in Russia was unregulated, although some judicial decisions effectively treated cryptocurrency as property. For example, in 2018, the Arbitration Court of Moscow provided a financial manager in a bankruptcy proceeding with the password for the debtor's crypto wallet for the purposes of including it in the insolvency estate.[138] However, the 2020 law "On Digital Financial Assets, Digital Currency and on Amendments to Certain Legislative Acts of the Russian Federation" (Digital Financial Assets Law) gave cryptocurrencies legal status.[139] The law defined cryptocurrency as digital currency. Digital currency is a set of electronic data (digital code or designation) in the information system, and it can be offered or accepted as a means of payment.[140] Such currency cannot be a monetary unit of the Russian Federation, foreign state, international monetary, unit of account, or an investment, because there is no person obliged to each owner of such electronic data other than the operator or nodes of the information system.[141] Furthermore, the Digital Financial Assets Law designates

132. Collins, *supra* note 22, at 19.

133. Allinger et al., *supra* note 89, at 62.

134. Collins, *supra* note 22, at 19.

135. *Id.*

136. Derbentsev, *supra* note 101, at 59.

137. Allinger et al., *supra* note 89, at 62.

138. *See* Arbitration Court of Moscow case No. A40-124,668/2017, as appealed No. 09AP-16416/2018, May 15, 2018; *see also* Alexander G. Gurinovich et al., *About Approaches to the Definition of Concept and Problems of Legal Regulation of Digital Financial Assets*, 22 PUB. ORG. REV. 1011 (2022).

139. FEDERAL'NYĬ ZAKON O TSIFROVYKH FINANSOVYKH AKTIVAKH, TSIFROVOY VALYUTE I O VNESENII IZMENENIY V NEKOTORYYE ZAKONODATEL'NYYE AKTY ROSSIYSKOY FEDERATSII [ON DIGITAL FINANCIAL ASSETS, DIGITAL CURRENCY AND ON AMENDMENTS TO CERTAIN LEGISLATIVE ACTS OF THE RUSSIAN FEDERATION] July 31, 2020, No. 259-FZ, (Russ.).

140. *Id.* art. 1 (3).

141. *Id.*

cryptocurrency as property[142] and prohibits Russian entities, branches of foreign companies set up in Russian territory, and Russian residents (individuals present in Russia for more than 183 days within twelve consecutive months) to accept cryptocurrency as means of payment for goods and services.[143] The law additionally provides for the possibility of the issue and circulation of digital currency in Russia. Digital currency may only be issued using the Russian information infrastructure. As a result of passing from one holder to another, transactions and operations with digital currencies can only be carried out using the Russian information infrastructure.[144] The law prohibits the dissemination of information on cryptocurrencies as means of payment.[145] Finally, it states that a digital currency holder has to inform tax authorities of the existence of digital currency and transactions as a condition for judicial protection of claims related to such transactions, operations, or both.[146] Notably, the holder of digital currencies (with the exception of civil servants) has the right, but not the obligation, to inform tax authorities about digital currencies.[147] While it does define cryptocurrencies and their legal status, the Digital Financial Assets Law does not deal with issues of cryptocurrency exchanges or crypto mining.[148]

On February 18, 2022, the Russian Ministry of Finance produced a draft law on digital currency that prohibits crypto assets from being used as a method of payment, but permits them to be used as an investment instrument, and allows crypto exchanges to officially operate (provided they comply with strict customer identification criteria and quality controls).[149] This draft is based on the government's Concept of Legislative Regulation of the Mechanisms for Organizing the Circulation of Digital Currencies (The Concept), dated February 8, 2022.[150] The Concept does not outlaw cryptocurrencies, but instead subjects them to strict regulation and state control.[151] It only allows

142. *Id.* art. 19.

143. *Id.* art. 14(5); *see also* Collins, *supra* note 22, at 19.

144. ON DIGITAL FINANCIAL ASSETS, No. 259-FZ, art. 14(1)-(4) (Russ.).

145. *Id.* art. 14(7).

146. *Id.* art. 14(6).

147. Decree of the President of the Russian Federation, No.778, (Dec. 10, 2020) (stating that civil servants have an obligation to inform tax authorities about their digital currencies).; *see also* Larisa V. Sannikova, *Russian Legal Framework for Digital Financial Assets*, 1 L. & DIGIT. TECHS. 3, 8 (2021).

148. Ekaterina Dorokhova et al., *Economic and Legal Aspect of Cryptocurrency Usage in Russia*, 181 ADVANCES ECON., BUS. & MGMT. RSCH. 327, 329 (2020); *see also* Derbentsev, *supra* note 101.

149. Allinger et al., *supra* note 89, at 62.

150. КОНЦЕПЦИЯ законодательного регламентирования механизмов организации оборота цифровых валют [CONCEPT of Legislative Regulation of the Mechanisms for Organizing the Circulation of Digital Currencies], 2022 (Russ.).

151. Kseniya Sokolova & Veronika Vaganova*, Ultimatum bitkoinu: na kakih usloviyah vlasti v Rossii gotovy terpet 'kriptu'* [*Bitcoin Ultimatum: Under What Conditions Are Russian Authorities*

transactions with cryptocurrencies on registered platforms, by identified users, and under strict governmental monitoring.[152] The Concept categorizes investors into qualified and unqualified through a testing procedure established by the organizer of the digital currency exchange.[153] Each level of investor is then limited in terms of the amount of funds that they can invest in cryptocurrencies.[154] The Concept introduces new subjects when it comes to cryptocurrency transactions: the organizer of the digital currency exchange system (a bank with a universal license);[155] the digital currency exchange operator (currency exchanges);[156] the foreign digital currency exchange;[157] and the clients (physical or legal entities who are subject to identification).[158] The Concept prescribes the functions and responsibilities of each of these new subjects, especially related to the verification of all users and transactions through the blockchain system created by Rosfinmonitoring (Russia's main financial intelligence unit)—including the creation of a database of suspicious crypto wallets.[159] The Concept prescribes that no foreign IT products or equipment should be used in the digital currencies control infrastructure and monitoring.[160] In order to transact with cryptocurrencies, clients would have to go through customer identification procedures and open an electronic wallet with the organizer of the digital currency exchange system (i.e. a bank with a universal license).[161] Furthermore, digital currency exchange operators will share all transaction information with the organizer of the digital currency exchange system,[162] and such information will be kept for five years.[163] In order to buy and sell cryptocurrencies on foreign exchanges, such exchanges would have to register a Russian branch.[164] The Concept also states that all transactions exceeding 600,000 rubles have to be declared to tax authorities.[165] The Concept has clearly expanded the state's regulation of cryptocurrencies. It aims to integrate cryptocurrencies into the Russian financial system to enable greater

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*Ready to Tolerate "Crypto"*], BIZNESS GAZETA (Feb. 9, 2022) (Russ.), https://www.business-gazeta.ru/article/539044 (Russ.).

152. *Id.*

153. Concept of Legislative Regulation of Mechanisms for Organizing the Circulation of Digital Currencies, 2022 art. 3(4)(b) (Russ.).

154. *Id.* art. 3(4)(b).

155. *Id.* art. 3(1).

156. *Id.* art. 3(2).

157. *Id.* art. 3(3).

158. *Id.* art. 3(4).

159. *Id.* art. 3(1)(b).

160. *See id.* art. (3)(1)(1.b).

161. *Id.* art. 3(4)(2.1).

162. *Id.* art. 3(4)(2.2).

163. *Id.* art. 3(1)(1.d).

164. *Id.* art. 3(3)(a).

165. *Id.* art. 4(1).

control over them.[166] Despite these aims, however, the Concept still does not address the issue of crypto mining and how individuals should declare and legalize existing crypto wallets.[167]

After China banned crypto mining, Russia became one of the largest crypto mining jurisdictions in the world.[168] Russian energy giants Gazprom and EuroSibEnergo have sold cheap megawatts to about seventy Russian Bitcoin mining companies to supposedly encourage crypto mining.[169] Thus, it is not surprising that in 2022 a draft law dealing with the regulation of crypto mining was proposed.[170] It provided a definition of crypto mining[171] and reiterated the prohibition on the advertisement of digital currencies, except crypto mining.[172] It also created an obligation to report cryptocurrency obtained as a result of mining,[173] thus placing mined currency within the grasp of Russian tax authorities.

From analyzing Russian legislative measures dealing with cryptocurrencies, it becomes apparent that the Russian state aimed to bring as many cryptocurrency transactions as possible within its control, thus undermining the decentralized and anonymous nature of these transactions and reducing their criminogenic potential.[174] Furthermore, it seems that the state is keen to take advantage of the high degree of digital currency acceptance within the Russian population, as well as the developments in blockchain technology to introduce its own Central Bank digital currency, the digital ruble.[175]

## VI. FROM CRYPTOCURRENCIES TO THE DIGITAL RUBLE

On October 13, 2020, the Russian Central Bank announced plans to run an experiment with its own digital currency—the digital ruble—with a limited number of participants.[176] When it comes to digital currencies, the Central Bank issues such currencies that are guaranteed to be redeemable with the Central Bank; thus, this type of currency is

166. *Pravitelstvo unverdilo Kontseptsiu zakonodatelnogo regulirovaniya oborota tsifrovyh valut* [*The Government Approved the Concept Legislative Regulation Digital Turnover Currencies*], PORTAL PRAVITELSTVA ROSSII (Feb. 8, 2022) (Russ.).

167. Sokolova & Vaganova, *supra* note 151.

168. *Analiticheskaya Spravka po Zakonoproektu N.237585-8* [*Analytical Report on the Draft Law No. 237585-8*], OUZS OBSCHESTVENNYI UPOLNOMOCHENNYI PO ZASCHITE SEMI (May 1, 2023), https://ouzs.ru/news/analiticheskaya-spravka-po-zakonoproektu-237585-8-/ (Russ.).

169. Konowicz, *supra* note 5, at 9.

170. O vnesenii izmeneniy v Federal'nyy zakon «O tsifrovykh finansovykh aktivakh, tsifrovoy valyute» i otdel'nyye zakonodatel'nyye akty [On Amendments to Federal Law on Digital Financial Assets, Digital Currency and Other Selected Legislation] PARL. GAZ. 1 (Nov. 17, 2022), (Russ.).

171. *Id.* art. 1(1).

172. *Id.* art. 1(2).

173. *Id.*

174. *Analytical Report on the Draft Law No. 237585-8*, *supra* note 168.

175. *Id.*

176. Dorokhova et al., *supra* note 148, at 327, 330.

fundamentally different from current cryptocurrencies, such as Bitcoin.[177] In other words,

> [a]lthough there are clear parallels between CBDC [Central Bank Digital Currency] and cryptocurrency, these are two very different instruments. Cryptocurrencies neither have a single issuer, nor do they provide the consumer rights protection. They can not [sic] be used to pay for goods and services in Russia, and as a rule no institution safeguards such assets.[178]

It is clear that, despite the use of digital technologies, the Central Bank's digital ruble will be a fiat currency.[179] The digital ruble, unlike cryptocurrencies, will be accepted as a means of payment for goods and services. Thus, the digital ruble will be "an additional means of non-cash payment and [is] not a cryptocurrency in the classic sense."[180] Because the ledger of transactions will be located on the Central Bank's permissioned ledger, it will give the state greater control over such transactions and may sideline the country's banks to some extent.[181] The Central Bank would protect the digital ruble, thus making it more secure against bank collapse.[182] Furthermore, the state could link digital currency directly to individuals and business enterprises, increasing its control and political leverage.[183] It will also make it easier to conduct transactions across international borders, potentially decrease dependence on the U.S. dollar, and reduce sanction exposure.[184] In a similar vein, the adoption of the digital yuan was viewed, in part, as "a push by the Chinese state to wrest control of payments markets back from its tech giants as well as offer an alternative to [the] US dollar hegemony in global trading markets."[185]

In April 2022, the Russian Central Bank increased its efforts to decouple from the U.S.- and European-dominated financial infrastructure and create its own mechanisms, including launching its

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177. Collins, *supra* note 22, at 3, 17.

178. Dorokhova et al., *supra* note 148, at 331 (quoting A. Borzova & E. Dorokhova, *Prospects for the Development of the Digital Economy in Russia, Scientific Research of Young Scientists: Collection of Articles of the IV International Scientific and Practical Conference*, PENZA 190 (2020)).

179. *Id.*

180. The Central Bank would also be able to use the digital ruble in more remote and hard to reach areas, thus increasing the access of the population to financial services. *See* Dorokhova et al., *supra* note 148, at 331.

181. Alexander Polivach, *Mirovaia Ekonomika I Mezhdunarodnye Otnosheniia* [*Digital Rouble and Prospects of Russian Currency 's Internationalization*], 66 PRIMAKOV NAT'L RSCH. INST. OF WORLD ECON. AND INT'L RELS. RUSSIAN ACAD. OF SCI. (IMEMO),19 (2022).

182. *Id.*

183. Konowicz, *supra* note 5, at 11.

184. Dorokhova et al., *supra* note 148, at 331.

185. Collins, *supra* note 22, at 17.

digital currency in 2023,[186] which would be capable of making and receiving international payments.[187] The Russian Central Bank announced the 2023 launch of the digital ruble pilot project with the participation of thirteen Russian banks.[188] The digital ruble may help Russia with international trade and "the idea of undermining America's dominion as owner of the world's chief currency" appeals to Russia.[189] Russia has also been pushing the idea that BRICS (the economies of Brazil, Russia, India, China, and South Africa) should adopt a supranational BRICSCoin to weaken the U.S. dollar.[190] Such a supranational digital currency would be backed by BRICS members' basket of currencies and gold.[191] "Linking Russia to a common digital currency with China and India makes effective enforcement of financial sanctions infinitely more difficult for the United States."[192] Furthermore, a common BRICS digital currency could make trade easier between BRICS countries and make exchange rates between BRICS states and their partnerships more equitable.[193] With more jurisdictions showing a desire to join BRICS, these countries are "seeking ways to undermine the dollar as 'the most popular global trading and reserve currency.'"[194] It is clear that Russia's continuing regulation of cryptocurrencies and the imminent release of its digital ruble is designed to increase the sovereignty of the Russian state as well as to advance Russia's geopolitical ambitions related to creating alternatives to current Western control over the global financial system.

## VII. CONCLUSION

It seems that the future path for blockchain technology around the world "is set towards further regulation, centralization, de-

186. Polivach, *supra* note 181.

187. Some other efforts by the Central Bank included expanding the list of jurisdictions willing to accept the Russian MIR card, an alternative to Visa and Mastercard. *See* Collins, *supra* note 22, at 20.

188. Lubomir Tassev, *Bank of Russia to Start Testing Digital Ruble With Real Users on April 1*, BITCOIN.COM (Feb. 20, 2023), https://news.bitcoin.com/bank-of-russia-to-start-testing-digital-ruble-with-real-users-on-april-1/.

189. The success of the digital ruble is in part dependent on the strength of the ruble itself. Konowicz, *supra* note 5, at 10 (quoting Owen Matthews, *Bitcoin and Blockchain: A Russian Money Laundering Bonanza?*, NEWSWEEK (Sept. 18, 2017), https://www.newsweek.com/russia-finally-embracing-virtual-currencies-666794); *see also* Olga A. Antoncheva & Tatiana E. Apanasenko, *Otnoshenie gosudarstva k kriptovalute kak indikator ego doveriya obschestvu,* [*The State's Attitude Towards Cryptocurrency as an Indicator of its Trust in Society*], 11 UPRAVLENCHESKOE KONSULTIROVANIE 130, 133 (2020) (Russ.).

190. Agathe Demarais, *Russia's Plan to Replace the Dollar Are Going Nowhere*, FOREIGN POLICY (Nov. 18, 2024), https://foreignpolicy.com/2024/11/18/brics-currency-dollar-russia-china-swift-finance-sanctions/.

191. Konowicz, *supra* note 5, at 10.

192. *Id.* at 10.

193. *Id.*

194. *Id.* at 11 (quoting Adam Garrie, *In Blow to US Dollar, BRICS Consider "Sanctions-Proof" Cryptocurrency*, MINT PRESS NEWS, Sept. 5, 2017).

anonymization, policing and development of basic financial infrastructure to limit volatility and the risks of financial contagion or economic collapse."[195] Blockchain technology may even be used to some extent to fight corruption, as the records made and stored in blockchain cannot be altered.[196] Thus, Russia is certainly not unique in regulating cryptocurrencies in such a way as to assert greater state control over them. What needs to be acknowledged, however, is that despite best legislative efforts, a certain amount of cryptocurrencies will still remain outside of the state's control.[197]

Looking at the Russian usage and regulation of cryptocurrencies it becomes clear that regulation of crypto transactions by the Russian state was never truly directed at avoiding sanctions in the first place, in part because of the scale of crypto transactions not being comparable to transactions over traditional financial networks, such as SWIFT.[198] Furthermore, linking cryptocurrencies to various sanctions packages also makes it more difficult to conduct large-scale operations to avoid sanctions. Thus, regulation of cryptocurrencies by the Russian government is really meant to give businesses and individuals a so-called "transition period" in order to adjust to the new post-sanction environment and to restructure their operations to different markets.

However, the bigger goal that the Russian state is aiming to achieve is to perhaps create a greater acceptance of digital currencies by creating a legislative base to bring these currencies under its control[199] to a certain degree and, more importantly, to lay the groundwork for the Central Bank's digital ruble.[200] Hopefully the increase in the popularity of the digital ruble will directly coincide with the decrease of the popularity of cryptocurrencies.[201] The Russian government views the digital ruble as an important mechanism to conduct international transactions and assert greater state control over financial activities as well as people and business entities; it also views it as an important geopolitical tool that is meant to erode the role of the U.S. dollar, as

195. Collins, *supra* note 22, at 26.

196. Anastasiya S. Zhidkova et al., *Tsifrovaya valuta kak instrument transformatsii denezhnogo rynka* [*Digital Currency as a Tool for Money Market Transformation*], FINANSOVYE RYNKI I BANKI 2 (2023) (Russ.); *see also* Igor M. Matskevich, *Organizovannaya prestupnost I kriptovaluta. Intervu vitse-prezidenta Souza KK V.S. Ovchinskogo* [*Organized Crime and Cryptocurrency. Interview with Vice President Souza KK V.S. Ovchinsky*], KOMSOMOLKA, (Jul 3, 2017) (Russ.).

197. Polivach, *supra* note 181.

198. M.M. Dolgieva, *Kriptoprestupnost v Usloviyah Spetsialnoi Voennoi Operatsii I Zapadnyh Sanktsii* [*Cryptocurrency Crime in the Context of the Special Military Operation and Western Sanctions*], AKTUALNYE PROBLEMY ROSSIISKOGO PRAVA 17:8 at 143 (2022) (Russ.).

199. *See* G.A. Shalamov & M.G. Igumnov, *O Besperspektivnosti Vnedreniya Kriptovalut v Rossii* [*On the Futility of Implementing Cryptocurrencies in Russia*], 1 MEZHDUNARODNYI NAUCHNO-ISSLEDOVATELSKII ZHURNAL 51, 51 (2021) (Russ.).

200. Antoncheva & Apanasenko, *supra* note 189, at 136.

201. Dolgieva, *supra* note 198, at 145.

Russia makes its pivot towards China and away from the West more permanent.[202]

202. Collins, *supra* note 22, at 20.